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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF BELLA VISTA WATER CO., INC. AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANTS AND PROPERTY
AND FOR INCREASES IN ITS WATER
RATES AND CHARGES FOR UTILITY
SERVICE BASED THEREON.

DOCKET NO. W-02465A-09-0411

IN THE MATTER OF THE APPLICATION
OF NORTHERN SUNRISE WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WATER RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. W-20453A-09-0412

IN THE MATTER OF THE APPLICATION
OF SOUTHERN SUNRISE WATER
COMPANY, INC., AN ARIZONA
CORPORATION, FOR A DETERMINATION
OF THE FAIR VALUE OF ITS UTILITY
PLANTS AND PROPERTY AND FOR
INCREASES IN ITS WATER RATES AND
CHARGES FOR UTILITY SERVICE BASED
THEREON.

DOCKET NO. W-20454A-09-0413

1 IN THE MATTER OF THE JOINT
2 APPLICATION OF BELLA VISTA WATER
3 CO., INC., NORTHERN SUNRISE WATER
4 COMPANY, INC., AND SOUTHERN
5 SUNRISE WATER COMPANY, INC. FOR
6 APPROVAL OF AUTHORITY TO
7 CONSOLIDATE OPERATIONS, AND FOR
8 THE TRANSFER OF UTILITY ASSETS TO
9 BELLA VISTA WATER CO., INC.
10 PURSUANT TO ARIZONA REVISED
11 STATUTES 40-285.

DOCKET NO. W-02465A-09-0414
DOCKET NO. W-20453A-09-0414
DOCKET NO. W-20454A-09-0414

12 **EXCEPTIONS TO**
13 **RECOMMENDED OPINION AND ORDER**

14
15 **March 24, 2011**
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1 Pursuant to A.A.C. R14-3-110(B), Applicants Bella Vista Water Co., Inc. ("Bella
2 Vista"), Northern Sunrise Water Company, Inc. ("NSWC"), and Southern Sunrise Water
3 Company, Inc. ("SSWC") (jointly "BVWC" or "Company") submit the following
4 exceptions to the Recommended Opinion and Order ("ROO") dated March 15, 2011. The
5 Company is also filing today a Request for Correction addressing errors and issues in the
6 ROO that the Company believes require amendment to reflect the findings of the ROO.¹

7 **I. SUMMARY OF EXCEPTIONS.**

8 The Company takes exception to only two aspects of the ROO. First, the ROO
9 approves BVWC's proposed hook-up fee tariff so long as such tariff does not contain the
10 following language: "The Company shall not record amounts collected under this tariff as
11 CIAC until such amounts have been expended for plant." Absent such language, the
12 Company is penalized with the loss of investment because it has restricted cash sitting in a
13 bank, and there are other less harmful ways to fund new plant for new development.
14 Second, if the language in the ROO stating that the Company must "coordinate when they
15 read the production meters each month with customer monthly meter readings"² means
16 that all the production meters are to be read at the same time, the Company takes
17 exception because it is not possible to read production meters at the same time as the
18 customer meters.

19 **II. APPLICANTS' EXCEPTIONS.**

20 **A. Production Meter Reading.**

21 As noted in the opening summary, the ROO would require BVWC to "coordinate
22 when they read the production meters each month with customer monthly meter
23 readings."³ Upon consolidation, BVWC will have approximately 10,217 installed meters,

24
25 ¹ The three issues addressed in the Request for Corrections are (i) accumulated depreciation/depreciation
expense, (ii) interest synchronization and (iii) outside services.

26 ² ROO at 48:2. *See also id.* at 54:3.

³ *Id.*

1 and 42 production wells. Production wells are read daily, while customer meters are read
2 over a period of 16 days, in 6 billing cycles, with an average of 638 meters read per day
3 by 2 full time employees.⁴ Due to the sheer number of connections, it is not currently
4 possible to coordinate reading customer meters with production meters at the same time.
5 In order to read the 9,832 meters (all but the NSWC system), in conjunction with the 42
6 production meters, BVWC would require an additional 14 full time employees to make
7 that possible (9,832 meters / 638 meters read daily – 2 existing full time employees = 13.4
8 full time employees).

9 Also, the majority of BVWC's wells are interconnected; thus, a certain area may
10 receive its water from several different production wells/systems. This may cause
11 anomalies and differences between production numbers and customer meter reads.
12 Installation of an AMI (Advanced Metering Infrastructure) system *would* solve this
13 problem; however, the cost associated with this type of installation for this system would
14 be significant.⁵

15 As noted in the ROO, the Company has agreed to Staff's recommendations
16 regarding non-account water.⁶ The Company's agreement was premised on its belief that
17 Staff did not intend to create a costly and burdensome monitoring requirement.⁷ Instead,
18 BVWC believes it should be ordered to "coordinate with Staff to ensure that the reading
19 of production and customers meters yields the necessary information to monitor non-
20 account water." This will serve the same goal — assurance that non-account water stays
21 below 10 percent without burdening the Company and customers with significant added
22 costs of service.

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24 ⁴ See Direct Testimony of Greg Sorensen (Bella Vista) at 2 – 3; Direct Testimony of Greg Sorensen
(NSWC) at 2 – 3; Direct Testimony of Greg Sorensen (SSWC) at 2 – 3; Rebuttal Testimony of Greg
25 Sorensen ("Sorensen Rb.") at 4:18-20; *see also* Tr. at 62 – 65.

26 ⁵ See Sorensen Rb. at 4:22 – 5:4; Tr. at 61:23-24.

⁶ ROO at 48:7.

⁷ Tr. at 64 – 66.

1 **B. Hook Up Fee Tariff.**

2 The Company understands the ALJ's hesitance to overrule past direction from the
3 Commission that HUFs are CIAC from the moment they are paid. The Commission can,
4 however, change its policy. The Commission can change the manner in which HUFs are
5 treated such that the funds, while merely sitting in a segregated bank account, are not a
6 deduction from rate base. This is all BVWC has suggested in this case, and all parties
7 agree that this is a policy change the Commission can make.⁸

8 The Commission should shift its policy and delay the time when HUFs are booked
9 as CIAC, because its current policy that unexpended HUF funds are deducted from rate
10 base is unnecessary and financially punitive. Many utilities have HUFs. As growth has
11 slowed, however, several utilities have faced the problem of unexpended CIAC being
12 deducted from rate base.⁹ Yet utilities do not benefit from funds in a bank account that
13 can only be used to build plant for future customers, at least not until that plant is built.
14 The ROO's attempt to equate the utility's knowledge that some funding will be available
15 to fund plant in the future with the removal of an equal amount of used and useful plant
16 from rate base falls short. On these issues, the Company's proposed language simply
17 addresses the timing aspect of CIAC payments. The Company's proposed language does
18 not convert non-investor supplied capital into the shareholder's investment, but simply
19 seeks to postpone CIAC treatment until such time as the necessary plant is actually
20 funded. Until then, the HUF funds just sit in a bank collecting interest that inures to the
21 HUF account.¹⁰

22 The ROO also states that the Company has failed to consider that the HUF funds
23 ultimately come from ratepayers or developers.¹¹ It's true that developers usually pay the

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25 ⁸ *Id.* at 607:12-18, 609:12-18, 990:13 – 991:1.

⁹ *Id.* at 253:23 – 255:3.

¹⁰ *Id.* at 108:2-24, 114:24 – 115:16; Rejoinder Testimony of Greg Sorensen at 3:9-17.

¹¹ ROO at 47:8-11.

1 HUFs in advance and that the cost is passed on to home buyers to the extent possible
2 under market conditions. By the time home buyers are “ratepayers,” however, the
3 Company will have expended the funds on the plant and established service. This means
4 “ratepayers” are being served by the plant they paid for in the price of their home, but the
5 Company is not being penalized while the developer’s money sits in a bank account.

6 RUCO’s “chase the CIAC argument” also fails to support rejection of the
7 Company’s suggested tariff language.¹² Whether or not the language suggested by
8 BVWC is included in the tariff, the Company will be required to make all of the same
9 filings with the Commission. These filings reflect the amount of HUFs collected in a
10 given year, the expenditures from the HUF accounts and the balance in the segregated
11 bank account. In other words, nothing changes with respect to reporting of CIAC from
12 HUFs.

13 Again, this comes down to a policy decision for this Commission. If the ROO is
14 adopted, the Commission can continue to use money sitting in a bank to lower rates by
15 reducing rate base, leaving utilities less financially healthy. If the Company’s position is
16 adopted, growth will still pay for growth; and CIAC will still be a deduction from rate
17 base; it’s just that the Company won’t have CIAC until it uses it to pay for plant. This
18 follows the basic accounting principle of “matching.”

19 **III. CONCLUSION.**

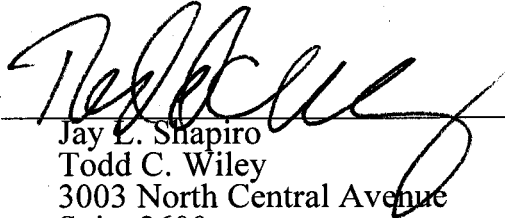
20 The Applicants respectfully request that the Commission adopt these exceptions
21 and modify the ROO as set forth above.
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26 ¹² *Id.* at 45:9-15.

1 DATED this 24th day of March, 2011.

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9 **ORIGINAL** and thirteen (13) copies
10 of the foregoing were filed
this 24th day of March, 2011, with:

11 Docket Control
12 Arizona Corporation Commission
1200 W. Washington St.
13 Phoenix, AZ 85007

14 **COPY** of the foregoing hand-delivered
this 24th day of March, 2011, to:

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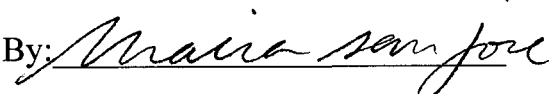
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